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E-BANKING IN CURRENT SCENARIO-A CASE STUDY

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E-Banking refers to the use of the Internet as a remote delivery channel for banking services. It includes the traditional ones, such as opening an account or transferring funds to different accounts, and new banking services, such as electronic online payments (allowing customers to receive and pay bills on bank's website) or financial transactions (acquisition, transfer, sale of securities)

CHARACTERISTICS OF E-BANKING

- Unprecedented speed of change related to technological and customer service innovation;
- Ubiquitous and global nature of the internet;
- Integration of Internet Banking applications with legacy computer systems and;
- Increasing dependence of banks on third parties providing the necessary information technology.

EMERGING DIMENSIONS OF BANKING

Certainly, some existing brick and mortar banks will go out of business. But that's because they fail to respond to the challenge of the internet. The internet and its underlying technologies will change and transform not just banking, but also all aspects of finance and commerce. It represents much more than a new distribution opportunity. It will enable nimble players to leverage their brick and mortar presence to improve customer satisfaction and gain share. It will force lethargic players who are struck with legacy cost basis, out of business- since they are unable to bring to play in the new context. Main emerging dimensions of E- banking are as follows:

1. **INTERNET BANKING**

   Internet Banking allows customers to conduct financial transactions on a secure website operated by their retail or virtual bank. Web is more important for retail financial services than for many other industries. Internet Banking involves use of Internet for delivery of banking products & services. Internet banking solution offers many features and capabilities in common. Mainly it facilitates to:

   - View Account Balances & Statements

- Verify cheque status
- Transfer of Funds
- Create Fixed Deposits Online
- VISA Money Transfer: Credit can be given to any VISA Card (Debit or Credit)
- Request a Demand Draft
- Pay Utility Bills
- Order a Cheque Book
- Request Stop Payment on a Cheque
- Make Mobile Payments and lots more.

2. MOBILE BANKING SERVICES

Mobile banking (also known as M- Banking, SMS Banking etc.) is a term used for performing balance checks, account transactions, payments, fund transfer; mobile top-ups etc. via mobile device such as a mobile phone. Mobile banking is most often performed via SMS or the Mobile Internet but can also use special programs, called clients, downloaded to the mobile device. Mobile Banking Services (MBS) enables a customer to get information whenever he wants, by sending an SMS in the specified format. Customers will also get Mobile Alerts on transaction happening in his account. He can restrict the Alerts to desired to transactions only. Mobile phone number has to registered at branch to avail the service. When registration is done for Mobile Banking, present Alerts will be enabled automatically to the customer. For availing Mobile-Banking facilities, the customer has to indicate a four- digit access code number, which will act as a password to ensure privacy and security.

3. TELE BANKING

Through Tele Banking System, customers can access their Bank Accounts over the telephone on a 24x7 basis. The facility is secure as the customer is given a unique identification number to access his bank account through the telephone, the voice response system prompts the customer to dial the digits that will help him to meet requirement of placing instructions or retrieving account information. This value added service is offered absolutely free. Registration is mandatory for Tele Banking.

4. CREDIT CARDS AND SMART CARDS

Credit cards in India are gaining ground. A number of banks in India are encouraging people to use credit card. Diners Club and American Express used the concept of credit card in 1950 with the launch of charge cards in USA. Credit card however became more popular with use of magnetic strip in 1970. Credit cards in India are financial

instruments, which can be used more than once to borrow money or buy products and services on credit. Basically banks, retail stores and other businesses issue these cards.

As the same itself indicates, Smart Card is a hi- tech credit card, which is having iys own memory system like computers. It can make necessary computation and can also keep records of the transactions. It has an integrated circuit with microprocessor chip (IC Chip), which an amount is transferred in the memory of Smart Card. Whenever it is used, its amount is decreased and at a stage, balance in amount is nil. At this juncture, further amount should be transferred from bank account otherwise card is of no use.

5. DEBIT CARDS AND ATM CARDS

Debit cards, also known as cheque cards like credit cards or ATM cards. Debit cards are different from credit cards. Credit card is a way to "pay later", whereas debit card is a way to "pay now", when we use debit card, our money is quickly deducted from the bank account

City Bank introduced Debit Card for the first time in India but now many banks, almost all banks have introduced Debit cards are accepted at many locations, including grocery stores, retail stores, gasoline stations, and restaurants. It's an alternative to carry a cheque book or cash.

The first bank to introduce the Automated Teller Machine (ATM) concept in India was the Hongkong and Shanghai Banking Corporation (HSBC). It was in the year 1987. Now, almost every commercial bank gives ATM facilities to their customers. It provides round the clock banking services to customers. Customers are not supposed to go to Branch for withdrawing and depositing money, for balance enquiry, for fund transfer etc. presently, most of the banks issue ATM- cum- Debit Cards, which can be used to withdraw money from ATMs as well as making payments at point of sale (POS).

With effect from 1st April, 2010, Reserve Bank of India (RBI) will permit free usage of ATM, where people will be allowed to use ATM of any bank without any restrictions. But since 15th October, 2010, if one will use other bank's ATM, it will be free only on withdrawal up to Rs. 10,000 per transaction in Saving Bank Accounts subject to maximum of 5 such transactions per month.

6. ANYWHERE BANKING (AWB)

Anywhere Banking is highly secure and convenient systems for online, real- time inter branch transactions across the bank. Facilities in Anywhere Banking are as follows:

1) Cash Remittance
2) Cash Withdrawal
3) Funds Transfer
4) Balance/ Passbook Enquiry

7. **ELECTRONIC FUND TRANSFER (EFT)**

   EFT is "Any transfer of funds initiated through an electronic terminal, telephonic instruments, computer or magnetic tape , so as to order, instructor authorize any institution to debit or credit an account".

   EFT utilizes computer and internet to transfer money, where all transactions are intangible and information based. It has accelerated the movement of funds across the globe, which is settled on day- to- day basis at major international financial centers.

   RBI has introduced Real Time Gross Settlement (RTGS) and National Electronic Fund Transfer (NEFT) systems, which are electronic settlement systems without or less involvement of papers. The payment system banks are processed and settled individually and continuously by RBI.

8. **ELECTRONIC CLEARING SERVICES (ESC)**

   ECS save time, money and reduces paper working for bulk and repetitive payments. ECS is useful where one organization is making payment to many persons or institutions or where many persons are making payment to one organization or institution. Earlier is known as ECS (Credit), while later is known as ECS (Debit).

SECURITY IN PAYMENT GATEWAY

Handling payment process is a critical factor in E- commerce. Traditional payment methods cannot be applied to E-commerce, as they tend to slow down the entire process. Mainly there are two way of payment after a transaction takes place viz. variations of these methods are as follows:

1. **CONVENTIONAL PAYMENT METHODS**
   - Cash
   - Cheque
   - Demand Draft/ Banker's Cheque
   - Bills of Exchange

2. **E-TRANSACTION PROCESS THROUGH PAYMENT GATEWAY**
   Payment Gateway refers to an E- commerce service that authorized payment for e-businesses & on- line retailers. It in a way represents a physical POS (Point- of- sale) terminal located in most retail outlets. Payment gateways encrypt sensitive information, such as credit card numbers, to ensure that information passes between the customer and the merchant. Credit Card, E- Cash, E- Cheque, E- Wallet and Smart Cards etc. are the common E- Commerce payment methods.

   FACTORS TO BE CONSIDERED FOR E- PAYMENT
   - It should be secure;
   - It should be user- friendly;
   - It should be cost- effective;
   - It should be fast;
   - It should contain some mechanism so as to be used in global market.

MODELS OF E- COMMERCE

Based on the relationship of transaction types E- Commerce can be categorized into the following types:

a. **BROKERAGE**
   It is a price discovery mechanism and global meeting point for buyers & sellers. Auctions and exchanges are mode of transactions. It is a Free Market. Some examples are B2B- Free Market.com, B2C- Priceline.com, C2C- ebay.com.

b. **AGGREGATOR**
   Based on the electronic market place, the aggregator bypasses distributers so that the buyers and sellers come together.

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c. **INFOMEDIARY**

An organizer who helps customers to collect, manage & maximize the value of information about consumers. An infomediary may offer free or paid Internet access or free or paid hardware in exchange for detailed information about their surfing and purchasing habits. They also work the other way round and provide consumers with useful information about the websites in a market segment. Some examples are Yahoo.com, Rediff.com, Hotmail.com, and Google.com.

d. **COMMUNITY**

E- Community caters to group of people who come on-line to serve their common interests & needs, exchange information, share interest, trade goods and services, entertain and seek help. Some categories are Newsletter, Discussion Forum, Bulletin Boards, and Chat- Rooms. Some examples are yahoomessenger.com, orkut.com, and mouthshut.com.

e. **VALUE CHAIN**

The goal is to develop full and seamless interaction among all members of the chain, resulting in lower inventories, higher customer satisfaction and shorter time to market. Some examples are Altavista.com, Yahoo.com.

E- COMMERCE SECURITY

Security is a critical factor of E- Commerce. Thousands of private networks are connected together through public networks. This means that a private network is exposed to the potential threat from anywhere in the public network. In physical world, crime often leaves evidence in form of fingerprints, footprints, witnesses, security camera's videos and so on. In on- line world, a cyber crime may take place so good security measures have to taken to trace the source of cyber crime.

SECURITY DEFICIENCIES

- Internet was not designed to be very secure, i.e., open access for the purpose of research was the prime consideration.
- A number of TCP/IP services are not secure and can be compromised by knowledge intruders.
- A major part of Internet traffic is unencrypted: email, password & file transfer can be monitored and captured using readily available software's.
- Lack of network policy. No proper knowledge for its implementation.
- Host security access controls are often complex to configure & monitor and if controls are accidentally mis- configured they often results in unauthorized access.
- Privacy of information.

- Security of that information and payment details.
- Whether or not the payment details (credit card details) will be misused.
- Identity theft.

Intruders, Spying, Spoofing, Viruses, Trojan Horses, Hackers, Unknown parties (in transaction), Customer's Privacy, Ensuring Identity etc. are some common security threats.

CONCLUSION AND SUGGESTIONS

- Some kind of authorization mechanism has to be implemented where the parties can make changes to the document transmitted over the network.
- Some kind of authentication mechanism can be provided where the origin & destination of an electronic message is correctly identified.
- Sound Firewalls can be implemented.
- A third party should there to take full charge of your security concerns to handle.

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E-COMMERCE: A NEW PARADIGIGM OF COMMERCE

E- Commerce stands for Electronic Commerce. It is the purchasing, selling, and exchanging of goods and services over computer networks through which transactions are performed electronically. E- Commerce Is a technology- mediated exchange between parties (individual or organizations) as well as the electronically based intra- or- inter organizational activities that facilitate such exchange. We can say that E- Commerce is a technology that involves electronic fund transfer, electronic data interchange, supply chain management, e- marketing, e-transactions, on- line inventory management system, on- line data collection system, etc. it typically involves use of electronic communication technologies such as internet, extranet, e-database, and mobile phones etc.

Traditional Commerce versus E- Commerce

Traditional commerce is paper- based and there is a direct interaction between customer and merchant. Whereas, in E- Commerce there exists a third party in- between customer and merchant for proper, secure, and smooth functioning of transaction.

Dimension of E- Commerce

E- Commerce mechanism has two dimensions as follows:

1. **Business Dimension of E- Commerce**
   Business Dimension of E- Commerce explores the following areas:
   - Customer Dimension: It focuses on customer behavior.
   - Enterprise Dimension: It focuses on the transaction chain of product between merchant and consumer.
2. **Technological Dimension of E- Commerce**
   Technological Dimension of E- Commerce explores the following areas:
   - Access Dimension: It focuses on how E- commerce facilities will be accessed through latest technologies.
   - Transaction Dimension: It focuses on how transaction will take place between consumer and merchant.

Driving Forces of E- Commerce

Following are the Driving Forces of E- Commerce

- Global Customer
- Global Merchant
- Global Market Place
- Global Services
- Global Product

Opportunities of E- Commerce

Opportunities in E- Commerce can be categorized into the following sections:

1. **Commercial Opportunity**
   Focus on on- line tax payment, on- line payment of services, public issue subscription, on- line share trading, on- line property transactions, on- line insurance business, on- line delivery of goods, on- line sales and purchase of goods, on- line electronic payment, on- line international finance, on- line transportation, on- line hotel and tourism industry, e- banking on- line import and export etc.
2. **Social Service Opportunity**
   Focus on e- learning, on- line research sharing, on- line diagnosis treatment, on- line tax filing.
3. **Entertainment Opportunity**
   Focus on ticketing for theatres, concerts, on- line games etc.

Models of E- Commerce

Based on the relationship of transaction parties, E- Commerce can be categorized into the following types:

a. **B2B (Business- to- Business)**
   Companies doing business with each other such as manufacturer selling to distributer, distributer to selling to whole- seller and whole- seller selling to retailers. Some examples are commodityindia.com, e2commerce.net, castingsworld.com, and chemround.com.
b. **B2C (Business- to- Consumer)**
   Selling and buying of goods and services via the web from retailers to web consumers. Here the retailer id often selling to unknown, un- trusted stranger. Therefore extra efforts must be made to capture consumer and payment information. Some examples are rediff.com, indiabulls.com, yahoo.com, and indiatimes.com.
c. **C2B (Consumer- to- Business)**
   Customer directly contact with business vendors by posting their project work with set budget on- line so that the needy companies review it and contact the customer directly with bid. The consumer reviews all the bids and selects the company for further processing. Some examples are guru.com, rentacoder.com, getacoder.com, and freelancer.com.
d. **C2C (Consumer- to-Consumer)**
   It allows unknown and un- trusted parties to sell goods and services to one other. Some examples are ebay.com, Traderonline.com, baazee.com, InfoRocket.com.

Perspective of E- Commerce

E- Commerce has to be understood from the following perspective:

1. From communication perspective, E- Commerce focuses on the delivery of goods, services, information, or payments over computer network or any other electronic means.
2. From commercial perspective, E- Commerce provides the capabilities of buying and selling products, service and increasing the speed of service delivery.
3. From service perspective E- Commerce addresses the desire of governments, firms, consumers, and management to cut service costs while improving the quality of customers service and increasing the speed of service delivery.
4. From learning perspective, E- Commerce, it is an enabler of on- line training and education in schools, universities, and other organizations.
5. From collaborative perspective, E- Commerce provides the framework for inter- and- intra organizational collaboration.
6. From community perspective, E- Commerce provides a gathering place for community members to learn transact and collaborate.

Strength & Weakness of E- Commerce

In order to implement E- Commerce technology one should be fully aware of its strength and weakness.

1. **Strength of E- Commerce**

   E- Commerce has in- built security mechanism like authentication, authorization, cryptography, digital signatures, Firewalls, etc. E- Commerce emphasizes better and quicker customer service. It also helps people work together. E- Mail is one example of how people collaborate to exchange information and work on solutions. More interaction means more knowledge and better results. E- Commerce is highly economical. There is no rental of physical store space. It is extremely cost effective as it reduces logistical problems and puts a small business at par with giants like Amazon.com, General Moters.com, etc. one of the major strength of E- Commerce helps to develop new ideas. E- Commerce also focuses on customization of products offered to customers. It also stores information about consumer’s taste and preferences, which are used to differentiate (customize) products as per individual needs.

2. **Weakness of E- Commerce**

   Data protection and system integrity are serious concerns. New computer viruses are discovered every day. These viruses cause unnecessary delays in transaction. Sometimes the transaction fails due to problems created by these viruses. Another weakness is that there is a continuous shortage of e- literate people in the workplace. Still a very high proportion of people say that they would not like to buy through the net because they are not sure of the quality and the delivery of the product. They need to feel the product and bargain to buy them. Business, learning and education for children are till now, the main

reasons to purchase a computer. Purchasing through the Intranet is among the least important perceived benefits among the people. So far, success stories in E- Commerce have favoured large businesses with deep pockets and goods funding. Although E-Commerce is equipped with security mechanism but still it continues to be a problem. Customer Relationship Problem is also exists as a weakness of E- Commerce. Due to these weaknesses of E- business, it has been realized that E- Business cannot survive over the long term without loyal customers.

Advantages of E- Commerce

1. **Conducting business 24x7x365**
   E- Commerce system can be operated any time. There is no time constraint as in traditional commerce system. Consumers can buy and merchant can sell any time they want.
2. **Global Marketplace**
   E- Commerce system allows local business to market and sell their products and services internationally. This global opportunity is assisted by the fact that users are not charged according to the distance over which they are communicating.
3. **Speed of Message Passing**
   E- Commerce systems allow messages to traverse the world almost instantaneously. There is no need to wait weeks for a catalogue to arrive by post.
4. **Computer Platform Independence**
   Many, if not most, computers have the ability to communicate via the Intranet independent of operating systems and existing hardware.
5. **Customer Self Service & Outsourcing**
   People can do business at their own convenience. Customers initiate most of the transactions and they provide lots of data for the transaction that may otherwise need to be entered by the business staff. This means that some of the work and costs are effectively shifted to customers; this is referred to as ‘customer outsourcing’.
6. **On- line interview**
   Organizations can conduct interviews through Intranet to select suitable candidate(s) as per their requirements.
7. **On-line Value Addition**
   Group discussion, paper presentation, seminars, etc. can be conducted for corporate offices, industrial houses, business firms, universities, etc.
8. **On-line Large Catalogs**
   A company can build a catalog on the web that would never fit in an ordinary mailbox.
   From Buyer’s Perspective
   - Reduction in buyer’s sorting out time.

- Better buyer decisions.
- Less time is spent in resolving invoices and order discrepancies.
- Increased opportunity for buying alternative products.

From seller's Perspective

- Reduction in service time and overall cost factors.
- Reduce the personal required to complete the business process.
- Increase visibility.
- Reduction in advertisement and marketing cost.

If properly used, E- Commerce helps in building customer loyalty.

Disadvantages of E- Commerce

1. **Physical Product's Delivery Time**
   People can do soft purchasing and hard purchasing. If you want a CD or an e-Book you can pay and download it on your computer. But if you want to purchase a fridge on- line, it takes time and issue costs.
2. **Physical Product, Supplier & Delivery (Traditional Approach)**
   In Traditionally, Commerce System, when you walk out of a store with an item, it's yours. You have it; you know what it is and how it looks but it is not so in e- commerce.
3. **Physical Product, Supplier & Delivery (E- Commerce Approach)**
   In E- Commerce purchase are made on trust. While purchasing on-line:
   - You do not have physical access to the product; a purchase is made on an expectation that product is in good condition.
   - Since business can be conducted across the world, it can be uncertain whether or not they are legitimate businesses men. It is pretty hard to complain and seek legal action.
   - Even if the item is sent, there is always a doubt, whether or not it will ever arrive.
4. **Limited & Selected Sensory Information**
   Internet is effective for visual and auditory information, i.e., seeing sounds are reading text. However, it does not allow full scope for our senses. We can see pictures of flowers but cannot smell their fragrance.
5. **Returning Goods**
   Returning goods on- line can be an area of difficulty. Some questions, which arise, are:
   - Will the goods get back to their source?
   - Who pays for the return postage?
   - Will the refund be paid?
   - How long will it take for fund?

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6. **Personal Service**
   Although some human interaction can be facilitated via the web, E- Commerce cannot provide the richness of interaction provided services. Successful use of E- Commerce involves strategies for gaining and applying customer feedback. This helps business to understand, anticipate and meet change on- line according to customer needs and preferences.
7. **Size & Number of Transactions**
   E- Commerce is most often conducted using credit card facilities for payments, and as a result very small and very large transactions are not conducted on- line. The size of transactions is also impacted by the economics of transporting physical goods.

Conclusions

1. **Sell**
   Sales continue to grow on the Intranet and on- line stores are likely to achieve higher and higher profits. Look out for comparisons, ranking, new payment options and pick up in stores.
2. **Knowledge**
   Use of knowledge that is out there. Tap into what consumers and competitors' are saying. Keep up to date with information and manage what information you receive through widgets, dashboards and RSS feeds.
3. **Efficiency**
   See how you could make your business more efficient or environment friendly..
4. **Social**
   Create new contacts through extended contact spheres. Utilize new web technologies to network outside your normal area.
5. **Advertising**
   Market your business off-line and on- line. Remember how Nike and Coke increased advertising and marketing spend during the recession years and reaped the rewards, look towards some of the cost effective or free routes coming on- line.
6. **Security**
   Ensure your business is protected. Make sure your security and your customer's security is up to date.

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WANT TO KNOW WHAT TO KNOW?

Mutual fund investments come with the rider that they are subject to market risk and that investors need to read the offer document carefully. But it is important to know what exactly you should know and what you need to avoid while investing in MFs.

Everybody in the world wants to maximize his/ her wealth. Another very important observation to make along with the first one is that, equity is the only asset class which outperforms all other asset classes in the long run. However, very few people prefer investing in equity. This is because, investments in direct equity are highly volatile and a wrong stock- picking may result n destruction of capital leave aside earning good returns. Wealth creation from investing directly in stocks depends a lot on investor's knowledge, patience, and time dedicated to the investments. However, most retail investors lack in most of these per- requisites and hence avoid investing directly is equities. However, the indirect route or rather the retail investors route to the markets is what Mutual Funds are known as. This route offers several important advantages over direct stock- picking. But, before you get into it, here are some specific notes on what to keep in mind while investing in MFs.

PRE-REQUISITES OF MUTUAL FUND INVESTMENTS

A Mutual Fund scheme is a portfolio comprising of several companies which have their own risk- return profiles. Further, through the MF route, one can also invest in other asset classes such as debt, gold, or a mix of debt and equity. Mutual Fund investments are less volatile due their very nature where they hold a variety of stocks in their portfolios. This largely smoothens out uneven movements in certain counters even if they happen. Further, MFs offer investors a balanced return, compared to the direct equity investments. But, the selection of the right MF scheme out of hundreds of them available for subscription is a difficult and time consuming task. As a process one has to first identify his/ her investment objectives, time horizon of investment and risk appetite to arrive at an investment plan. Here are some of the dos and don'ts for selecting schemes.

The first and foremost activity to do is, to clearly identify your goals. There has to be clear choice between Capital appreciation and regular income. Accordingly, the investor needs to allocate his/ her savings in various schemes. Identifying goals will automatically help in trimming down the list of schemes to select from.

Further, investors must also consider their financial risk appetite while selecting fund schemes. Is he comfortable with dramatic swings in the portfolio value or is he conservative on the returns? The former can lead to good capital appreciation but also carries the risk of a sudden dip in value.

Finally, the time horizon for the investment is also equally important while investing in fund schemes. The time horizon for the investment depends on the liquidity position of the investor.

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Equity mutual fund holders should ideally remain invested for at least five years or more years or more in order to make good and consistent returns on their investment.

While selecting and analyzing an individual mutual fund scheme, investor need to keep an eye on various factors such as charges & fees, management track record, portfolio allocation, etc. mutual Funds earn their income by charging various fees as fund management fees. The fee charged by fund houses to manage and operate the fund is commonly known as an expense ratio. Hence investors should look for the management expense ratio. The higher the ratio, the lower the investor's return will be at the end of the year. Hence it is very important to look out well managed funds which have a low expense ratio.

Fund schemes backed by a sound Asset Management Company are an ideal pick compared to unknown schemes available in the domestic market. The AMC management should be competent enough to manage the funds activities even if the fund manager leaves the AMC. Further, investors should find out the details about the fund manager who will be managing the scheme. Investors can find answers to these questions by checking upon the historical track record such as

1. Did the fund manager deliver returns that were consistent with general market returns?
2. Was the scheme's return fluctuating more as compared to the broad market indexes returns?
3. Was there an unusually high churning in the scheme's portfolio?

Ideally, the fund manager should have seen through a few business cycles to understand market movements.

This information provides an insight into how the portfolio manager performs under certain market conditions, as well as what historical has been the trend in terms of turnover and return. Having said that, it pays to keep in mind that, past performance is no guarantee of future results. Knowing the fact that equity funds deliver superior returns only over the long term, it is important that investors should not get biased by a scheme which has delivered excellent returns over a short time period of say six months or a year. Every equity mutual fund has its own investing theme and comparable benchmark index. Investors should always prefer schemes which have outperformed its benchmark returns. Finally one should look at where your money is going to be invested. In simple terms, while you have shortlisted a fund scheme, study its portfolio allocation. Understand the quantum of funds invested in the various categories and stocks. The portfolio allocation study will help investors understand the risk carried by the scheme.

MISCONCEPTIONS IN MUTUAL FUND INVESTING

Having discussed the pre requisites of fund investing here are some common misconception about MF investing especially among the retail investors.

1. **NEW OFFERS ARE BETTER THAN EXISTING FUNDS**
   As explained earlier, before making any investment, it is essential to complete the above state exercise of researching the track record of the fund house and checking on the fund managers expertise. Looking at the consistent track record during, various market cycles tells you a lot about the fund manager's and hence one can expect similar result in future too. However, the NFO loses out in this aspect. Further, the NFOs generally charge higher fees to recover the costs associated with initial marketing, publicity, and commissions that need to be given to agents and distributers. Many investors believe that an NFO offers good opportunity to invest in a fund schemes as its par value. That does not make sense, because positive returns from a fund scheme depend on the constituents of the portfolio, sectoral investments, etc. and also a lot on the way the portfolio is managed. Hence it is important to check out on the uniqueness of the NFO as to what exactly it offers which is new. For example, a real estate investment, a silver
   or gold ETF, or an overseas fund in a specific sector, a new asset class that existing funds don't have in offer. However, please remember that investor must cross check whether the fund scheme matches their investment objectives and risk appetite. To sum up, as an investor, it is a prudent strategy to invest in existing fund schemes under the NFO is really carry higher risks due to lack of past track record.

2. **A MUTUAL FUND WITH A LOWER NAV IS BETTER THAN A FUND WITH A HIGHER NAV**
   Fund schemes with a lower NAV frequently look attractive to investors. One must remember that when investors invest in a fund scheme, they invest in its existing NAV. The investors buy units at NAV which is calculated on current market price of constituent assets. Thus it is constituent stocks in a portfolio that determine returns from a fund, the value of the NAV being immaterial. In much mutual fund investment, investors ideally want to buy in the scheme's performance. Hence, the NAV makes no difference to returns.

3. **THE DIVIDEND OPTION IS BETTER**
   While investing in a mutual fund, investors can choose between the growth and the dividend options. A common misconception is that opting for the dividend option is better, as it provides better on account of dividends declared. Most of the investors think that they will earn better dividend adjusted returns says that, most of the times, opting for a dividend option does not give better returns, investments objectives and liquidity needs play an important role in deciding which option is chosen. Ideally investors looking out for regular income only opt for a dividend option. Otherwise, growth option is always advisable in the rest investment objectives.

4. **MUTUAL FUND LACK EXITEMENT**

Direct stock investing has always been more fascinating than mutual fund investments. Individual stocks tend to give 50, 100 or 200 percent returns in a year in a bull market. However, these kinds of returns are practically impossible in mutual funds in a short term. This under performance of MF schemes vis- a- vis direct equity plays heavily against the funds. Everybody in the world wants to see his/ her money grow at a faster pace and if equity does this for them, the propensity will naturally be to invest directly in equities rather than doing it through MFs? Definitely, stocks do excite investors. However, bears will ensure that your wealth erodes at a far faster clip when they take over in case you have gone the direct equity route. Direct equity investments may show considerably negative in very short time period too. However, the performance of the mutual fund is not as fluctuating over a short term thereby preventing investor's capital from deteriorating.

5. MUTUAL FUNDS ARE TOO DIVERSIFIED

One of the biggest differences between direct equity investments and mutual fund investments is diversification. In fact, one of the biggest advantages of MF investing is the automatic diversification that comes to investors. This is something which is not possible while investing directly in equity. It has been observed that investors tend to get obsessed with winners and are thereby tempted to buy more. Over time, they keep adding the same stock, resulting in an increased allocation to these stocks in their portfolio. This will increase their portfolio performance dependency on performance of these stocks increasing the risk associated with their portfolios. However, this does not happen to mutual fund investors normally.

6. INVESTING IN MANY FUNDS IS BETTER

Normally, a single mutual fund schemes invest in at least 30 to 40 stocks, thus helping investors diversify. Experts always recommend investors to bring down the number of funds in their portfolio. An investor should invest in a asset classes in various categories. Investing in few mutual fund schemes helps in better tracking.

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TAKE A SIP- A PRUDENT SRATEGY TO INVEST IN THE EQUITY MARKET

It is frequently observed that investors try to time the market. Everybody in this world to buy at lows and sell at the high. However, this is practically impossible as nobody in this world can predict the bottoms and tops of the market accurately. Hence for wise investors, who are willing to invest for a longer duration (more than five years) for their financial planning objectives, timing the market is not a prudent strategy. Experts always believe that one should invest regularly to meet his/ her investment objectives. And the effective and a hassle- free way of investing regularly is through Systematic Investment Plans (SIPs). Through a SIP, investors need not worry about timing the market as they are investing a fixed amount regularly at fixed intervals such as a week, month or a quarter. Furthermore, investors always have the option open to invest surplus amount to get a lower average cost when the market corrects further. The SIP route provides investors various advantages such as light on the wallet, irrelevant market timing, and power of compounding.

We have an elaborate attempt to arm our readers with all that is necessary to get ready and make some profitable investments through the MF route. But as they say, you are your best judge. Read the offer documents carefully, remember, mutual fund investments are subject to market risk.

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MUTUAL FUND GUIDE

By becoming a mutual investor, you have adopted the right approach to investing. With all the choices available in the mutual fund marketplace, it is important to navigate and select the mutual funds that are most suitable for you. More often than not, one starts investing and forgets about it with time, which is the worst that you could do with your hard earned money. There are no magic tricks to wealth creation. Investing has a secret formula- have the right information, plan and make the right choice. This guide is designed to help you understand these issues. You should read the commonly faced questions to keep in tune with your investments and built wealth. After all, information is an investor's best tool.

What is a mutual fund?

A mutual fund is a trust that pools the savings of several investors and then invests these into different kinds of securities (shares, debentures, money market instruments, or a combination of these) in keeping with pre- stated investment objectives. The income thus generated and the capital appreciation is distributed among mutual fund unit holders in proportion to the number of units held by them.

What is the difference between large-, mid-, and small cap funds?

Diversified equity funds are categorized as large-, mid-, and small cap funds on their allocation to large-, mid-, and small cap stocks. For instance, a large- cap fund, will predominantly invest in large- cap stocks, which could be anywhere over 70 per cent. Likewise small- and mid cap funds would have proportionately higher allocation to stocks in the specific market capitalization band.

Why consider investing in a mutual fund over direct stock investment?

There are several factors that tilt the balance towards investing in mutual funds instead stocks. The most common are that mutual funds offer diversification, convenience and lower costs. If you were to invest directly in stocks, you would need to invest a lot more money to build a well diversified portfolio across assts compared to a single mutual fund scheme that inherently has the advantage of being well diversified, and tax efficient at the same time.

How do mutual funds diversify their risks?

As an investor you can reduce your total investment risk by holding a portfolio of assets instead of holding a single asset. As mutual funds hold your money across a portfolio of assets such as

debt, the fortune of your portfolio does not depend entirely on a single asset. By creating a portfolio of a variety of assets, this risk is substantially reduced.

Could a wide diversification across equity mutual funds benefit an investor?

Diversification is one of the many advantages of investing in mutual funds. A mutual fund allows for diversification between various styles, sectors, and even countries. With so much going, one could buy a mutual fund that is broadly diversified, or buy a portfolio of mutual funds across various themes to diversify.

What is the benefit of SIP and cost averaging?

Systematic investment plan or SIP is a regular investment of a fixed amount at a fixed frequency. As the investments are fixed, they instill a discipline to invest regularly in mutual funds irrespective of market movements and the NAV of a fund. Effectively, one buys less when the NAV is high and more when the NAV is low, averaging out the returns on investment over the long team. This takes care of buying at a lower price in beaten down markets and also averages the overall costs of purchase. Hence it is the best to invest through SIPs in volatile times.

What does an exit load mean?

An exit load is the charge or commission that an investor pays when exiting a fund scheme within a prefixed term. The load is charged at differential rates and taper with the tenure of investment. For instance a fund scheme may charge 1 per cent exit load on investments up to 6 months in a scheme, which goes to 0.5 per cent up to 1 year and 0.25 up to 2 years and so on. Some AMCs and some funds may not attract any exit loads and an investor should check at the point of investment whether the scheme in question attracts any exit load.

Should mutual fund be churned?

Churning a mutual fund portfolio means frequently buying and selling mutual funds, which goes against the grain of staying invested for the long-term. Churning comes with its share of costs because each exit could kick in an exit load and may also have tax implications depending on the fund scheme and the period for which it is held. Unlike stocks, that may need active trading, mutual funds do not require frequent adding.

What are the parameters on which a Mutual Fund scheme should be evaluated?

Performance indicators like total returns given by the fund on different schemes, the returns on competing funds, the objectives of the fund and the promoters image are some of the key factors to be considered while taking an investment decision regarding mutual funds.

What are the key factors that investors should keep in mind while investing in a mutual fund?

There are several factors to consider when investing in a mutual fund, including the objective of the fund, its past performance history and the fund's portfolio composition, it will be useful to know at a few other factors such as the PE ratio, PB ratio, standard deviation and Sharpe ratio among ratio.

- PE Ratio: It's the price by earnings ratio of a mutual fund, which indicates how expensive (or otherwise) the fund is. A mutual fund's PE ratio is an important parameter to estimate the valuation. A high PE ratio indicates an overpriced scheme while a low PE ratio can be good.
- PB Ratio: The PB ratio is price to book value of the fund, which is nothing but aggregated book value if the portfolio comprising the fund. A lower PB ratio indicates that the fund is available at a good price, but it could be due to bad fundamentals.
- Sharpe Ratio: It is the ratio between excessive return of the fund over the risk free rate and standard deviation of the return of the fund. The risk is defined by the standard deviation. Hence a higher Sharpe ratio is preferable because it shows that for the same risk level, a higher Sharpe ratio means higher returns over the risk-free rate.
- Standard Deviation: Standard deviation measures the volatility or risk of a fund. A large standard deviation reflects the high risk associated with the fund. However, it is not wise to look at this in isolation. Sharpe ratio is a better parameter.

What are the key risks in debt fund investment?

Debt funds are those mutual funds that generate returns by investing in fixed income instruments of various kinds. The key risks that debt funds carry are Credit Risk and Interest Rates Risks. The interest rate risk and return level of a bond is determined by its residual maturity. The shorter the maturity, the more predictable, less risky and possibly less profitable a bond will be. Longer maturity bonds show opposite characteristics. Credit Rating indicates issuer's strong ability and willingness to pay interest and repay principle as scheduled which keeps the accrual income constant. Hence a bond with a good credit rating score is always better to be considered for investments.

When should one invest in bond funds?

One should always have some exposure to bond funds to follow the principle of asset allocation to maintain a debt to equity ratio, Moreover, investments in debt funds are more stable and less volatile, making them suitable for one looking for stable income from investments. However in

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these schemes when general interest rates start to fall, because interest rates and bond prices share an inverse relationship.

Why is credit rating important?

The credit quality of a bond depends on the issuer's ability to pay interest on the bond and; ultimately, to repay the principal upon maturity. Credit rating of a bond indicates its quality and safety is an important factor to consider when investing in debt funds.

What does modified duration indicate in a bond fund? How does it impact a fund performance?

Debt funds invest in securities with variable maturity period. Modified Duration is used to measure the change in bond prices as a result of change in interest rates. It can help an investor understand the effect of change in interest rate on the value of the fixed income securities. As a general rule, for every 1 % increase or decrease in interest rates, a bond's price will change approximately 1 % in the opposite direction for every year of modified duration. So, the modified duration works on the inverse relationship between bond prices and interest. With these facts one can relate to the changes in bond rates and hence, the way investments would work in a debt fund.

Why should one consider liquid funds?

Liquid funds are a type of debt fund which do not invest any part of assets in securities with a residual maturity of more than 91 days, making them a relatively safe investment option. As the name suggest, liquid funds provide high liquidity and you can get your money back in your bank account on the next working day, provided the redemption request is submitted by the cut-off time of 3pm.

What is redemption/repurchase price?

Redemption or Repurchase Price is the price at which an investor sells back the units to the Mutual Fund. This price is NAV related and may include the exit load.

What is the procedure for redemption?

You need to feel in the redemption application available at the bottom of your mutual fund account statement, which needs to be signed by all the account holders in case the mode of holding is joint. In case the mode of holding is any one or survivor, the application can be signed by one any one of the account holders. The duly filled in application form is to be sent to the nearest Investor Service Center (ISC). The units will be redeemed to you at the redemption price applicable for the transaction date on which your application was received at the ISC. In case

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your application is received after the cut-off time, the applicable transaction date would be the next business day.

Can the redemption proceeds be directly credited to my bank account?

If you have a core banking account and have provided the account number along with IFSC code pertaining to your bank branch to the respective AMC for a particular mutual fund, then based on your redemption request, the redemption proceeds can be credited directly to your bank account. However, the procedure for direct credit may vary from AMC to AMC.

Do investments in mutual funds offer tax benefit on capital gains?

Yes. If you redeem your investments from an equity-oriented fund after a period of 1 year, your capital gains are exempted from capital gains tax. However, short-term capital gains on investments that are less than a year are taxed at 15 percent excluding surcharge and education cess.

Why should I track the performance of my Investments?

Investing is not a onetime exercise. The fund that you have invested in may not always do well. By reviewing the performance of the fund that you have invested in, you have the option to stay invested or cut your losses and exit to invest in another fund scheme. Tracking your investments is as important as investing in the first place. Your risk appetite may not be the same any more, the investment may have achieved its purpose or the fund scheme may be underperforming regularly. These are some of the reasons that you need to consider to track, review and refine your investments.

Why is KYC important for mutual fund investing?

Effective January 01, 2011 KYC compliance was made mandatory for all categories of investors irrespective of the amount invested in new or additional purchase, switch transaction, new SIP/STP registrations and any SIP/STP/Trigger related products launched subsequently. KYC is required for individual(s) and non-individual(s), guardian investing on behalf of minor, constituted as power of attorney (PoA) holder(s), in case of investments through PoA.

What are my rights as a unit holder in a mutual fund?

As a unit holder, you have a proportionate right in the beneficial ownership of the assets of the scheme and to the dividend declared. You are entitled to receive dividend warrants within 30 days of the date of declaration of the dividend. You are entitled to receive redemption cheques within 10 working days from the date of redemption. Further, 75 per cent of the unit holders with

the prior approval of SEBI can terminate AMC of the fund. Likewise, 75 per cent of the unit holders can pass a resolution to wind-up the scheme.

HUMAN RESOURCE ACCOUNTING- AN EFFECTIVE BASIS FOR HUMAN ASSET

Skillful and specialized human resources are of vital importance for an organization just like its physical properties and investments. Managers of the organizations spend a lot of money for training and educating their workers and employees in order to increase the efficiency of the organization under their control. This paper explores the role and importance of Human Resource Accounting in an organization. Human Resource Accounting is an extension of the Accounting principle of matching the costs and revenues and of organizing data to communicate relevant information in financial terms. The quantification of the value of Human Resources helps the management to cope up with the changes in its quantum and quality so that equilibrium can be achieved in between the required resources and the provide human resources. This study mainly focuses on the importance of HR Accounting, their methods, HR Accounting in India and objectives against HR Accounting.

INTRODUCTION

The quality and caliber of the people working in an organization are the real assets of the organization. An enterprise with incompetent people will fail sooner or later, but on the other hand, competent people can take the unit ahead, even out of adverse environment. HR Accounting is an attempt to identify and record investment made in the human resources. It is an information system reporting the cost and value of the human factor to the organization.

Human Resource Accounting in India: In India Financial Statements are prepared under the provision of Indian Companies Act, 1956. There is no provision in the act for disclosure of human resources in the final accounts. The only provision in the act is regarding the disclosure of information about the employees getting remuneration of Rs. 36,000 per annum or mare as foot notes in profit and loss account. However, leading public sector units like BHEL, SAIL, MNTC, OIL, NTPC, etc have started reporting valuation of human resource in their annual reports as additional information. Most of these companies have adopted the Lew and Schwartz model with suitable modifications. However, they do not follow uniform policies in reporting human resource information as no internationally accepted accounting standards has yet been evolved and no guidelines are available from professional bodies.

CHARACTERISTICS OF HR ACCOUNTING

The following characteristics of HRA have been identified:-

- It's a system of accounting in which identification of human resources is made.
- Investment made in human resources is recorded.
- Measurement of costs and values are made.
- Changes occurring in human resources over a period of time are also recorded.
- Communicates information through financial statements to interested parties.

Helps the management to gain knowledge of the various aspects of employees which is necessary to take vital decisions for the progress of the organization. HRA is a part of MIS. Joint efforts of behavioral scientists, accountants, and managements are needed for the working and development of HRA.

OBJECTIVES OF HR ACCOUNTING

- It furnishes cost/ value information for making management decisions about acquiring, allocating, developing & maintaining human resources in order to attain cost effectiveness.
- It allows management personal to monitor effectively the use of human resources.
- It provides a sound & effective basis for human asset control, that is, whether the asset is appreciated, depleted or conserved.
- It helps in the development of management principles by classifying the financial consequences of various practices.

NEED OF HR ACCOUNTING

- HR Accounting is very much needed to provide effective management within the organization.

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- If there is any change in the structure of manpower, it is HRA which provides information on it to the management.
- HRA provides qualitative information & also assess the cost incurred in personal.
- It gives a platform to the management by providing factors for better decision- making for future investment.
- The return on Investment on human capital is best evaluated through HRA.
- HRA communicates to the organization & public about the worth of human resources & also its proper allocation within the organization.
- HR helps the management in developing principles by classifying the financial consequences of the various practices.

APPROACHES OF HUMAN RESOURCE ACCOUNTING

Human Resource Accounting can be tracked two methods:-

- Cost- based analysis
- Value- based analysis

The cost- based approach focuses on the cost parameters, which may relate to historical cost, replacement cost, or opportunity cost.

The value based approach suggests that the value of human resources depends upon their capacity to generate revenue. This approach can be further subdivided into two broad categories: non- monetary and monetary.

The nature of resources can also be examined by allocating relative human asset values to different job grades. HRA also helps in examining expenditure on personal and in reappraisal of expenditure on services and training. It can also serve as a key factor in case of mergers and takeover decisions, where the human asset value becomes a relevant factor. Another very significant role, which HRA can help in creating, it goodwill for a company. The company can project itself in having best practices with superior policies in place. Experts believe that this may help the organization attract more investments. One of the major objectives of human resource accounting is to develop reliable measures of effective manpower utilization. Both monetary and non- monetary measures are needed for use in 1) decision making involving the acquisition, development and allocation of human resources, and 2) monitoring and evaluating the degree to which the management has effectively and efficiency utilized the human resources.

EVALUATION OF HUMAN RESOURCE ACCOUNTING

Gul (1984) expresses that human resource is the profit lever of the knowledge economy. According to him employees of organizations possess knowledge and skills necessary to perform

useful functions and achieve the firm's goals and objectives. In essence, the employees contribute in no small measure in generating income for the firm. Similarly, Steven (1993) argues that employees interact together and transform other sources of the firm so as to add value. What results from this transformation through "a pool of human resources" is reflected in the profit of the firm. Thus, it is on this basis that human resources needs to be accorded a high priority and constantly appraised.

The following are the quantitative measure adopted to assess the human resource effectiveness:

1) **Revenue factor:** This is a basic measure of human capital effectiveness and it is the aggregate result of all the drivers of human resource management that influence employees' behavior. This is calculated by taking the total revenue and dividing it by total head- count of the organization.
2) **Expense Factor:** This is equally a basic measure of human capital effectiveness. It shows the operating expenses per each employee in the organization. This expense factor is calculated by taking the total operating expenses and dividing it by total head count of the organization.
3) **Income Factor:** This measures the operating income of the organization for each employee. This operating income is usually the profit before tax of the company. This factor is computed by taking the profit before tax and dividing it by the total head count of the organization.
4) **Production Factor:** This measures the production per employee of the organization. This is calculated by taking the total production and dividing it by the total head- count of the organization.

MAJOR ISSUES OF HUMAN RESOURCE ACCOUNTING

Human Capital Accounting deals with six major issues, which are:

1) Existing methods of reporting on the financial value of Human Capital as an intangible asset.
2) New reporting standards for the non- financial aspects of Human Capital.
3) The new concept of Human Capital.
4) Measuring Human Capital.
5) Analyzing Human Capital (to develop HR strategies that drive organizational performance).
6) Placing Human Capital on the balance sheet.

LIMITATION OF HUMAN RESOURCE ACCOUNTING

Human Resource Accounting is the term used to describe the Accounting Methods, systems, and techniques, which coupled with special knowledge and ability, assist personnel management in the valuation of personnel in their knowledge, ability and motivation in the same organization as well as from organization to organization. It means that some employees become a liability instead of becoming a human resource. HRA facilitates or to provide training. There are many limitations which make the management reluctant to introduce HRA. Some of the attributes are:

- There is no proper clear cut and specific procedure or guidelines for finding costs and value of human resources of an organization. The systems which are being adopted have certain drawbacks.
- The much needed empirical evidence is yet to be found to support the hypothesis that HRA as a tool of management facilitates better and effective management of human resources.
- As human resources are incapable of being owned, retained, and utilized, unlike the physical assets, there is a problem for the management to treat them as assets in the strict sense.
- There is a constant fear of opposition from the trade unions as placing a value on employees would make them claim rewards and compensations based on such valuation.